

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

In the Matter of the Application of            )  
SOUTHERN CALIFORNIA GAS COMPANY            ) A.00-04-031  
for Authority Pursuant to Public            )  
Utilities Code Section 851 to Sell            )  
its Storage Field in Montebello,            )  
California                                        )  
  (U 904 G)            )  
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MOTION FOR ADOPTION OF SETTLEMENT

Pursuant to Rules 51 through 51.10 of the Commission's Rules of Practice and Procedure, all parties to A.00-04-031 hereby move for Commission adoption of the attached Settlement. Parties also request that time for comment on the Settlement be shortened to 14 days from today.

A prehearing conference was held in this application on October 30, 2000, at which time appearances of parties were received. The persons entering appearances as parties were Applicant Southern California Gas Company ("SoCalGas"), the Office of Ratepayer Advocates ("ORA"), the Utility Reform Network ("TURN"), the Southern California Generation Coalition ("SCGC"), and Southern California Edison Company ("SCE"). No other persons have entered appearances as parties to the proceeding. The attached Settlement has been signed by all the parties to the proceeding. It is, therefore, an "all-party" or "uncontested" settlement as defined in Rule 51 and as those terms have been used by the Commission in the

context of evaluating whether to adopt proposed settlements. This motion is filed by all of the five parties ("Parties") to the proceeding, as listed above.

### **Description of the Settlement**

The following is a description and summary of the Settlement. The Parties refer the Commission to the attached full text of the Settlement for all of its provisions and details.

Under the Settlement, SoCalGas will withdraw as quickly as possible as much of the gas in storage at the West Montebello field as is economically feasible.

The approximately 3 Bcf of working gas in storage will be included in the SoCalGas gas procurement portfolio at book cost, using the normal "LIFO" accounting methodology for the core's working gas. The Gas Cost Incentive Mechanism ("GCIM") will not apply to this volume of gas. SoCalGas' revenue requirement for average working gas inventory will also be adjusted to reflect the sale of this gas using "LIFO" accounting methodology.

Cushion gas withdrawn will be sold on the open market. At the outset, SoCalGas will use futures contracts, swaps, or similar transactions to fix the price in advance for up to 75% of the cushion gas that it estimates will be recovered in the first two years, and may enter into additional similar transactions for later gas recovery. Because the Settlement gives SoCalGas' shareholders a financial incentive to maximize net benefits of the sale, decisions made by SoCalGas in fixing this price are not subject to reasonableness

review, except that any fees or commissions paid by SoCalGas shall be consistent with industry practice.

SoCalGas will end gas recovery and salvage and sell its remaining property at the field when the value of continuing to recover gas in storage is outweighed by the estimated value from salvage and sale of remaining property. Approval of the Settlement by the Commission constitutes Commission authorization for sale of property at that time without the need for further Commission authorization.

Prior to sale of real property at the field, SoCalGas will conduct an environmental review. Depending on which option maximizes net benefits, it will either remediate environmental conditions at the field prior to sale or will sell the field "as is" with the purchaser indemnifying SoCalGas for future environmental remediation.

Net after-tax gain on sale of all property, excluding working gas, will be allocated 50%/50% between SoCalGas shareholders and ratepayers. Impacts on income tax expense in all years will also be allocated 50%/50%. The shareholder's 50% will not be subject to further earnings sharing under PBR. Net after-tax gain is calculated by taking revenues associated with salvage and abandonment (from sale of cushion gas, sale of real property at the field at conclusion of gas recovery, and other minor revenues) and subtracting the cost of recovery of gas and salvage.

The Settlement estimates the net present value of the ratepayers' 50% share of net after-tax gain to be \$14.2 million. This amount will be amortized as a credit

in rates over 12 months, beginning 60 days after the Settlement is approved by the Commission.

The recorded revenues and costs will be tracked, with interest. In 2004, the Commission can authorize an interim adjustment in rates for any difference between the \$14.2 million already credited in rates and what is then estimated to be the recorded net after-tax gain. After recovery of gas in storage is completed and the remaining property sold, the Commission shall approve a final accounting and true up any difference between that amount and reductions previously reflected in rates. Ratepayer's share of the gain on sale will be allocated 70%/30% between core and noncore customers.

The cost of ownership and operation of Montebello currently included in SoCalGas' authorized margin will be removed from rates effective 60 days after approval of the Settlement. This amount is set at \$14.103 million per full year if the effective date is in 2001, and at \$14.275 million per full year if the effective date is not until 2002. The amounts shall be prorated for any part of the year remaining if the effective date is any date other than January 1. This is a permanent reduction in rates, not just for a 12-month period. This reduction shall be allocated between core and noncore customer classes according to the allocation of LRMC "scalar" between those customer classes in the last SoCalGas BCAP decision (D.00-04-060).

In summary, the Settlement provides for a reduction in rates 60 days after approval by approximately \$28.1

million for 12 months<sup>1</sup>, with a continuing permanent reduction thereafter in excess of \$14 million.

**This is an all-party settlement**

Under Commission precedent<sup>2</sup>, an all-party settlement will be given deference by the Commission in terms of the details of its provisions as long as the parties to the settlement are fairly reflective of the affected interests, the provisions of the settlement do not contravene statute or prior Commission decisions, the settlement conveys to the Commission sufficient information for the Commission to discharge its future regulatory obligations, and it addresses the major issues in the case. In this case, the parties are fairly reflective of the affected interests: TURN represents the interests of residential and other small customers of SoCalGas; SCGC members are representative of SoCalGas' noncore customers; SCE is representative of persons who have a stake in the maintenance of a competitive gas and electric market in California; and ORA represents the interests of utility customers in general. Nothing in this Settlement contravenes statute or prior Commission decisions. In particular, nothing in this Settlement will in any way modify or contravene the Commission's decision (D.00-09-034) approving a settlement in the investigation concerning the accuracy of information

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<sup>1</sup> Subject to true up later for the actual net after-tax gain on sale.

<sup>2</sup> In re San Diego Gas & Electric Company; D.92-12-019; 46 CalPUC2d 538 at 550-551 (1992).

supplied in connection with SoCalGas' Montebello gas storage facility (I.99-04-022). The Settlement, especially in the detailed exemplary calculation shown in its Appendix A, provides the Commission with the information needed to permit it to discharge its future regulatory obligations, including application and enforcement of the Settlement. Finally, the Settlement resolves all issues in this application.

**This Settlement meets all standards for approval of even a contested settlement**

Furthermore, the Parties submit that the Settlement also meets the higher standard of review as stated in Commission precedent and the Rules of Practice and Procedure<sup>3</sup> for adoption of settlements that are contested. This standard for review requires, with no particular deference as to the specific provisions of the proposed settlement, that the settlement be reasonable in light of the whole record, consistent with law and prior Commission decisions, and in the public interest. The Parties address below how the Settlement herein meets the criteria for adoption of even contested settlements.

**1. The Settlement is reasonable in light of the record as a whole.**

The Settlement is reasonable in light of the whole record. The instant application was filed on April 20, 2000, with supporting testimony from SoCalGas included. Although no other party has yet served testimony in this

application, it is important to note that SoCalGas filed in January 1998 A.98-01-015, which covered exactly the same subject matter as the instant application. A.98-01-015 was dismissed by the Commission without prejudice in D.99-09-xxx, but only after full hearings and briefing had been completed. SoCalGas, ORA, SCE, and SCGC<sup>4</sup> served prepared testimony in A.98-01-015 and witnesses for SoCalGas, ORA, and SCE testified and were subject to cross-examination<sup>5</sup>. The ALJ in this application has incorporated in this record all exhibits received and all transcripts in A.98-01-015. Thus, the Parties to the Settlement have already engaged in very substantial discovery and analysis of the issues presented by this application.

Furthermore, the Settlement adopts an approach for the sale and salvage of the West Montebello field that was specifically identified and suggested by ORA in its limited protest, in lieu of the approach proposed by SoCalGas. Thus, it represents the product of an analysis of a party representing ratepayer interests, separate and independent of SoCalGas' analysis.

The approach in the Settlement of having SoCalGas withdraw gas in storage and then sell it as part of a salvage and abandonment process is also more consistent with usual utility practice, and is consistent with how SoCalGas salvaged and abandoned its former storage field in East Whittier.

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<sup>3</sup> In Re Pacific Gas and Electric Company (Diablo Canyon); D.88-12-083; 30 CalPUC2d 189 (1988); and Rule 51.1(e).

<sup>4</sup> Of the Parties to A.00-04-031, only TURN did not participate in the hearings in A.98-01-015, but it later participated by filing comments on the Proposed Decision dismissing that application.

<sup>5</sup> Prepared testimony served by SCGC was not received in evidence for procedural reasons. SCGC did file opening and reply briefs.

The Commission also considers the risk, expense, complexity, and duration of continuing litigation in deciding whether a settlement is reasonable in light of the whole record. The Parties note that there was litigation all the way through complete briefing in the prior Section 851 application, but that if this Settlement is not adopted, the litigation of this the present application may take a substantial additional amount of time. While the litigation positions of the parties differ as to the date at which the cost of ownership and operation of the Montebello field should be removed from rates, delay caused by litigation of this application in lieu of adoption of the Settlement could delay significantly the date at which this reduction in rates would occur. By contrast, adoption of the Settlement will mean that the reduction will occur just sixty days after the effective date of the Commission decision approving the Settlement.

Furthermore, as the Commission is well aware, the market price of natural gas is at a very high level. The market price is reflected monthly in rates of customers, including the vast majority of core customers, who purchase gas commodity from SoCalGas. Although no one can be sure, parties hope current high market price levels for gas will be temporary. While the reduction in rates from this Settlement (from an up-front credit for estimated gain on sale and from removal of the cost of the field from rates) is only a fraction of the increase in the market price of gas, any rate relief that can be achieved now rather than later may have a particular value to customers.

Current high gas prices also argue for the salvage of the Montebello field as soon as possible. The parties believe that gas prices are unlikely to remain at current, abnormally high levels for long. Quick salvage, rather than eventual sale after lengthy litigation, will maximize the benefits to ratepayers from the abandonment of this storage field and its approximately 26 Bcf of working and cushion gas.

**2. The Settlement is consistent with law and prior Commission decisions**

Parties believe that the Settlement is fully consistent with law and prior Commission decisions.

First, the Settlement (see Section 3.1 and especially 3.2) is designed to avoid modifying or conflicting in any way with the settlement as approved by the Commission in D.00-09-034 of I.99-04-022, the investigation into the accuracy of information supplied to the Commission by SoCalGas in connection with that field. The removal of the cost of the field in rates provided in the present proposed Settlement is in addition to the prospective removal from rates as required by Ordering Paragraph 5 of D.00-09-034 of the cost of mineral rights the rescission of which former owners accept pursuant to D.00-09-034. The removal of mineral rights costs from rates prescribed by D.00-09-034 will proceed without disturbance, in the same amount and at the same time as prescribed by D.00-09-034, if the proposed Settlement is adopted. Section 2.3 of the proposed Settlement provides for revenues received by SoCalGas for oil produced in association with gas recovery to be credited towards the calculation of gain

on sale that is shared between ratepayers and shareholders. However, those revenues are limited to oil to which SoCalGas owns the mineral rights at the time of production. Oil revenues with respect to any mineral rights that are owned by others at the time of production, including persons to whom mineral rights are returned pursuant to D.00-09-034, will not be included in ratemaking calculations under the proposed Settlement.

With respect to consistency with provisions of law, the Parties believe that the provisions of the Settlement are all within the lawful discretion of the Commission to adopt.

### **3. The Settlement is in the public interest.**

The Commission also considers as a critical element whether a settlement is in the public interest.

The Commission's first consideration here should be that this Settlement will reduce rates to customers sixty days after approval by \$14.2 million for twelve months (subject to subsequent true up or down for recorded salvage proceeds and costs), and permanently by an additional amount of slightly over \$14 million per year. That is over \$28 million in the first 12 months, and a continuing amount of more than \$14 million per year. As a whole, the Settlement will make gas customers significantly better off.

The specific provisions of the Settlement are also in the public interest.

There is every reason to conclude that SoCalGas does not need to retain ownership and operation of the field to provide just, reasonable, adequate and efficient

utility service. While Edison and SCGC raised some concerns about this subject in 1998, SoCalGas has now operated three and a half years, since April of 1997, without having cycled gas in or out of the field, and there have been no impacts on quality of service to customers. Even at recent high gas demand levels, utilization of SoCalGas' storage inventory capacity is well below SoCalGas' inventory capacity without Montebello, and use of withdrawal capacity has been well below SoCalGas' withdrawal capacity without Montebello. Retention or sale of Montebello would have no impact on SDG&E's capacity to meet the maximum daily demand for gas on SDG&E's system. Furthermore, SoCalGas' testimony shows that if the capacity of the field were ever needed in the future, it would be more efficient to provide that capacity from additions to the capacity of other existing SoCalGas fields. The inefficiency of continuing to maintain the West Montebello field has only been magnified over recent periods by the substantial increase in the market price of natural gas. The opportunity cost to customers of SoCalGas maintaining Montebello is the sum of the gain on sale of gas in storage and the cost of the field in rates. As highlighted by ORA's limited protest, the value of gas in storage is now much increased. The ratepayer share of the after-tax salvage gain under the Settlement would be an estimated \$14.2 million.

The increase in gas prices has also undermined any need or reason to require SoCalGas to put the field up for sale to the highest bidder, with no restriction on the use to which the winning bidder would put the field. SoCalGas proposed this approach in order to assure the

Commission that its sale of the field was not designed to prevent the field from being used in the future by a new owner to provide storage services in competition with SoCalGas, if that was the highest and best use of the field. However, the large increase in market price of gas since 1998, and even since April of 2000, makes it very unlikely that a winning bidder in a sealed bid process would choose to use the field to offer gas storage service to the public rather than to recover and sell the cushion gas. With well over 25 Bcf of working and recoverable cushion gas in the field, and gas prices above \$5.00 per mcf (over \$100 million before cost of recovery), the highest value of the field to a bidder is very likely to be for salvage, especially recovery and sale of the gas in storage, not to use the field to provide competitive storage service.

Under this circumstance, the Settlement is in the public interest in simply proceeding as fast as possible to have SoCalGas salvage the field, and recover and sell the gas in storage, without a sealed bid process. Furthermore, the Settlement's approach of having SoCalGas perform the salvage assures that the benefits to ratepayers<sup>6</sup> will be based on the actual value received from recovery and sale of the gas (and, eventually, other property at the field). Under a sealed bid process, the ratepayers would have benefited based on the highest price bid (or SoCalGas' reserve price, if higher). While SoCalGas believes the sealed bid process it proposed to be as effective as possible in being competitive and maximizing amounts bid, there would always be uncertainty as to whether any money was "left on the table". The

Settlement will track and adjust rates for actual gas sale proceeds received by SoCalGas.

The Settlement provides for a 50/50 allocation of net after-tax gain on sale between shareholders and ratepayers. Parties emphasize that this Settlement does not establish any precedent with respect to this subject or in any way bind the Commission's discretion in the sale of other utility property with respect to this issue. However, this outcome is within the range of outcomes of prior Commission decisions on allocation of gain on sale, and is reasonable under specific circumstances here and in light of the other terms of the Settlement.

The allocation of net after-tax gain to shareholders under the Settlement provides an incentive to utility management to bring forward between general rate cases/PBR cost-of-service proceedings proposals that will provide significant reductions in rates to their customers. It also provides a powerful incentive for SoCalGas to operate in the future under terms of the settlement to maximize the proceeds from salvage and to minimize the costs of salvage, which will be shared equally between shareholders and ratepayers.

The tax effects of the allocation of gain on sale (including so-called "Year 2" effects) are resolved in the way most favorable to ratepayers among the options that could reasonably be considered, and consistent with the principles jointly recommended on this issue by ORA, TURN and SoCalGas in the pending application to sell some lots at SoCalGas' Playa del Rey storage field in A.99-05-029.

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<sup>6</sup> Subject to appropriate sharing with shareholders, as discussed below.

Also, under the Settlement, the value of the working gas in the field belongs to core ratepayers and will be treated upon withdrawal as any other core working gas from any other field. Given very high current market gas prices, core customers would be better off using this working gas to meet their needs this winter than purchasing an equivalent amount in the market. The Parties urge the Commission to act as fast as possible to approve this Settlement to allow core customers to displace purchases while current market prices are high.

The Settlement is also in the public interest in its treatment of the removal of the cost of ownership and operation of Montebello from current rates. Some parties had advocated removal retroactive to September 16, 1999.<sup>7</sup> SoCalGas had argued that the terms of its Commission-approved PBR mechanism do not require the adjustment of base margin for sale of property until the next PBR cycle, which would be January 1, 2003, for SoCalGas. The Settlement resolves this issue by removing this cost as of 60 days after the approval of the Settlement. This will be approximately the time that SoCalGas will need to begin the salvage of the field's cushion gas.<sup>8</sup> As with allocation of gain on sale, this aspect of the Settlement is not intended as precedent or to bind the Commission on the general issue of how ratemaking mechanisms (including PBR) should apply to sale of property between PBR/general rate cases.

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<sup>7</sup> SoCalGas' actions/omissions at issue in I.99-04-022 cannot now be used as a basis for such action per the D.00-09-034.

<sup>8</sup> SoCalGas cannot withdraw and sell cushion gas until the Commission acts on this application. Per the Settlement, the first gas withdrawn will be considered working gas. SoCalGas should be able to start recovering cushion gas approximately 60 days after approval of the Settlement.

The Settlement's 70/30 allocation between core and noncore customers of ratepayer gain-on-sale is reasonable in light of the general allocation of storage costs between core and noncore customers over the course of several past BCAP decision cycles. The Settlement's provision allocating authorized margin reduction between customer classes on the basis of the last BCAP's class allocation of "scalar" costs is in the public interest because that is how Montebello cost in rates today is allocated between customer classes.

**Request to Shorten Time for Filing Comments on Settlement**

Parties request that the Commission shorten time to comment on this motion for adoption of Settlement to 14 days (i.e., to December 6, 2000), from the 30 days normally provided under Rule 51.4.

Such a shortening of time is allowed under Rule 51.10, which provides that in proceedings where all parties join in the proposed settlement (as is the case here), a motion for waiver of the settlement rules may be filed. In this case, the Parties are only asking that the comment period be shortened to 14 days, not waived entirely.

The reason for shortening time is that under the terms of the Settlement, the sooner it is approved, the greater the benefits to ratepayers. This is the case with respect to the removal of the cost of Montebello currently in rates. Also, Parties believe that if the Settlement is approved sooner rather than later, SoCalGas

is likely to be able to fix a higher sales price for gas it will withdraw from storage. Finally, the Settlement provides for a significant rate reduction 60 days after approval, and it is desirable to have this reduction available when gas customers are facing high market prices for gas.

**Conclusion**

If any Commission decisionmakers wish to have any further information relevant to the Commission's consideration of the Settlement, Parties would be pleased to provide such information, as soon as is convenient to the Commission. Parties could provide this information either at an oral hearing or in a written filing (or both), as the Commission finds most convenient and expeditious.

For the reasons stated above, the Parties urge the Commission to approve the attached Settlement without modification and as soon as possible.

Undersigned counsel for SoCalGas represents that he has been authorized by all parties listed below to sign and file this motion on their behalf.

Respectfully submitted,

Southern California Gas Company  
Office of Ratepayer Advocates  
The Utility Reform Network  
Southern California Generation Coalition  
Southern California Edison Company

November 22, 2000

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\_\_\_\_\_)

**SETTLEMENT AGREEMENT**

Pursuant to Rules 51 through 51.10 of the Commission's Rules of Practice and Procedure, the undersigned parties ("Settlement Parties") hereby submit this Settlement Agreement ("SA") in settlement of all issues within the scope of this application and raised in it.

**Background**

A.00-04-031 was filed by Southern California Gas Company ("SoCalGas") on April 20, 2000. In this application, SoCalGas sought authorization from the Commission pursuant to Public Utilities Code Section 851 to sell its property at the West Montebello<sup>9</sup> gas storage field. In its application, SoCalGas proposed to sell the

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<sup>9</sup> SoCalGas has often referred this field as the "Montebello" field because it is the only gas storage field that SoCalGas has in the City of Montebello. However, the field technically is known as the "West

field, including all working gas and cushion gas in storage, to the highest bidder in a sealed bid process. SoCalGas also proposed to establish a confidential reserve price and to salvage and abandon the field itself if no bid submitted exceeded the reserve price.

In its limited protest filed May 30, 2000, ORA suggested that the parties explore the alternative of having SoCalGas immediately proceed to withdraw and sell gas all its gas in storage that is feasible and economic to recover, and then to salvage its remaining property.

The signatories to this Settlement have agreed to a resolution of the application consistent with the suggestion made by ORA in its limited protest.

The specific terms of this Settlement are as set forth below:

**4 Process for Salvage and Sale of West Montebello Field.**

**4.4 Recovery of Gas in Storage.** SoCalGas will not immediately sell all of its property at the West Montebello gas storage field, including gas in storage. Rather, SoCalGas will withdraw -- as quickly as possible and economically reasonable -- all remaining working gas and cushion gas in storage at the West Montebello field. Working gas will be withdrawn and included in the portfolio of gas supplies sold by SoCalGas to its gas procurement customers at tariffed rates, as described further below. Cushion gas withdrawn from storage will be sold by SoCalGas on the open market (such as to marketers of gas) at market price. Gas withdrawn under

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Montebello" field, in distinction to the adjacent field known as the

this Settlement will be considered to be working gas until such time as the amount of gas recovered exceeds the amount of working gas shown as stored in the field in SoCalGas' records, at which point further withdrawals will be considered all cushion gas.

**1.2 Fixing in Advance the Price for Sale of Cushion Gas Recovered.** SoCalGas shall use futures contracts, swaps, financial derivatives, or similar transactions, to fix the price to be received from the recovery of a substantial percentage of the amount of cushion gas that SoCalGas estimates it can recover from the West Montebello field over time. Shortly after the Settlement takes effect, SoCalGas shall enter into one or more transactions to fix the price of up to 75% of the estimated cushion gas withdrawals in the first two years of recovery. The details of these transactions, and similar transactions for later periods, are left to the discretion of SoCalGas. Any fees, commissions, or similar costs (if any) that are consistent with industry practice and incurred by SoCalGas to engage in such transactions will be treated for ratemaking purposes in the same way as costs of salvage as described below in this settlement.

As described in this Settlement below, the settlement is designed to give SoCalGas the same incentive for its shareholders as for its ratepayers to maximize the benefits of fixing in advance the price to be received from sale of cushion gas to be withdrawn. This Settlement intends this incentive to act in lieu of any after-the-fact reasonableness review of SoCalGas'

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"Montebello" field.

decisions in fixing in advance the price to be received for cushion gas. The decisions, process, and assumptions used by SoCalGas to fix the price in advance of cushion gas to be recovered shall not be subject to after-the-fact reasonableness review by the Commission, including (but not limited to) decisions as to the amount of cushion gas that it estimates can be recovered, the rate at which that amount of gas can be recovered over time, and the terms and conditions of the transactions it enters into<sup>10</sup>.

**1.3 Salvage of Property after Recovery of Gas in Storage.** SoCalGas will salvage its remaining property at the field when the process of withdrawal and sale of gas in storage at the field has reached a point that the estimated value of continued recovery of gas in storage is outweighed by the estimated value to be obtained from salvage of the remaining SoCalGas property at the field. "Salvage" includes the retention by SoCalGas of property for use at other locations in providing utility service, and the sale of any remaining property, including real property at the West Montebello field and gas remaining in storage that was not economic for SoCalGas to recover.

Real property, any unrecovered cushion gas in storage, and, at SoCalGas' discretion, any other SoCalGas property remaining at the West Montebello field will be sold after the conclusion of recovery of economically-recoverable gas in storage. This property will be sold by SoCalGas using a real estate broker.

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<sup>10</sup> Provided that the Commission may review whether any fees, commissions, or other costs that SoCalGas incurs to fix the price of gas

Prior to the sale, SoCalGas will complete a thorough investigation of all environmental conditions at the field. SoCalGas will determine whether it will maximize net proceeds from the sale for SoCalGas to remediate any

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to be sold are consistent with industry practice as a condition of allowing them as a cost of salvage.

environmental conditions prior to sale, or to sell the property "as is" (i.e., with the purchaser to indemnify SoCalGas for the cost of any future environmental remediation). SoCalGas will choose whichever option maximizes the net proceeds from the sale, the benefits from which are to be shared equally between SoCalGas shareholders and ratepayers pursuant to this Settlement as shown in Appendix A. Any remediation of environmental conditions by SoCalGas prior to sale will be recorded as a cost of salvage in the tracking account established pursuant to this Settlement and treated the same as all other salvage costs. If SoCalGas sells the property "as is" but must bear the cost of environmental remediation conducted after the sale notwithstanding indemnification by the purchaser<sup>11</sup>, the cost of such remediation borne by SoCalGas would be subject to its Hazardous Substance Cost Recovery Account, or whatever successor mechanism or process may be established by the Commission in the future.

Approval by the Commission of this Settlement shall constitute authorization for SoCalGas to sell its remaining property at the West Montebello field once recovery of gas in storage reaches the point that the value of continued recovery is estimated to be outweighed by the value to be obtained from salvage. SoCalGas shall not be required to file another application pursuant to Public Utilities Code Section 851 to sell remaining property at the West Montebello field upon conclusion of its recovery of gas in storage.

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<sup>11</sup> The only situation that parties to this Settlement have been able to identify at this time that could lead to this result would be the insolvency of the purchaser.

**5    Ratemaking Treatment of Sale of Property at West  
Montebello Field**

**2.1 Allocation of Gain on Sale between Shareholders and Ratepayers.** There shall be an equal allocation (i.e., a 50%/50% allocation) between SoCalGas shareholders and ratepayers of the net after-tax gain on sale and salvage of all SoCalGas property, excluding working gas in storage, at the West Montebello field.

The equal allocation between SoCalGas shareholders and ratepayers of gain on sale shall include an equal allocation of any effect on income tax expense incurred by SoCalGas as a result of impacts on rates caused by the allocation of gain-on-sale pursuant to this Settlement, using the formula on SoCalGas tariff sheet Cal.PUC Sheet No.30183-G (Section G.4. of Preliminary Statement XI). The effect shall include the so-called "Year 2" impacts on income taxes, but because the amount of gain to be allocated under this Settlement is to initially be based on an estimate and later trued-up to recorded figures, there may be tax effects in more than two years.

The portion of gain-on-sale allocated to shareholders pursuant to this Settlement shall not be subject to the earnings sharing mechanism for SoCalGas under base rate Performance Based Ratemaking adopted in D.97-07-054, or any other mechanism sharing earnings between shareholders and ratepayers that may hereafter be adopted by the Commission.

**2.2 Calculation of Net Gain on Sale to be Allocated between Shareholders and Ratepayers.** Net gain on sale

shall be calculated using the proceeds from sale by SoCalGas of cushion gas (including any cushion gas not economically recoverable by SoCalGas sold in place after recovery efforts end), depreciable assets, and real property at the West Montebello field. From the proceeds shall be subtracted the costs of recovery of gas in storage, the net book value of property sold, and other costs of abandonment and salvage. The proceeds net of costs shall be adjusted to reflect state and federal income taxes on the gain.

An exemplary calculation of the net gain-on-sale is included as part of this Settlement at Appendix A. The particular numbers in that Appendix are intended to be exemplary-only, but the methodology of calculation illustrated by the Appendix is intended to be a substantive part of this Settlement.

**2.3 Crediting of Ratepayer Share of Estimated Net Gain on Sale, Subject to True-up to Recorded Net Gain on Sale.** Sixty (60) days after the effective date of a Commission decision approving this Settlement, SoCalGas shall reduce rates to ratepayers for one year to reflect ratepayers' 50% share of an estimate of a net after-tax gain-on-sale of cushion gas and other SoCalGas property at the Montebello field, excluding working gas, of \$28,400,000. That is, rates shall be reduced for one year by the amount of \$14,200,000. The reduction of \$14,200,000 in rates is subject to a later adjustment or adjustments in rates to reflect the amount recorded in the tracking account described as follows: an interest-

bearing<sup>12</sup> tracking account shall be established also effective 60 days after the effectiveness of the Commission's order approving this Settlement to track any difference between \$14,200,000 and the ratepayer's share of the recorded net after-tax gain on sale, to be calculated using the methodology shown in Appendix A. The tracking account shall include as a credit any revenues from oil produced on and after the establishment of the account in association with the recovery of gas in storage from the field. This credit shall include revenues only from the production of oil under rights owned by SoCalGas at the time oil is produced.

ORA will review and audit on an on-going basis the entries in this tracking account. ORA shall complete a review and audit of the tracking account by year-end 2003. Any party to A.00-04-031 may seek to have the Commission adjust rates in 2004 to amortize the balance in the tracking account as of the end of the period (not later than year-end 2003) reviewed and audited by ORA. The Commission shall have discretion as to whether or not to make an adjustment at that time or to defer an adjustment to a later time. At such time as SoCalGas has completed salvage of the field, ORA will complete a final review and audit of the tracking account and the amount in the account shall then be amortized in rates.

Nothing in this Settlement precludes any other Commission employee or other person from access granted by law to the books and records of SoCalGas, including those related to entries in this tracking account.

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<sup>12</sup> At the three-month commercial paper rate as reported by the Federal Reserve.

**2.4 Allocation of Ratepayer Share of Gain on Sale between Customer Classes.** This reduction of \$14,200,000, and subsequent adjustments to true up to recorded information, shall be allocated between customer classes on the basis of 70% to core customers and 30% to noncore customers. Allocation within these two customer classes shall be on an equal cents per therm basis, excluding noncore customers with fixed price contracts.

**2.5 Ratemaking Treatment of Working Gas Recovered.** All working gas in the West Montebello field will be withdrawn by SoCalGas and included as recovered in the portfolio of gas supplies sold by SoCalGas to its gas procurement customers at tariffed rates. The cost of the working gas recovered will be reflected in the calculation of SoCalGas' tariffed gas procurement rate based on the "LIFO" methodology for working gas inventory currently applicable for accounting and ratemaking purposes. SoCalGas' revenue requirement for working gas inventory will be adjusted to reflect the recovery of working gas from the West Montebello field using the same "LIFO" methodology for working gas inventory used for pricing the inclusion of this gas in SoCalGas' tariffed gas procurement rate. The working gas withdrawn from the West Montebello field will not be included in the calculation of any shareholder reward/penalty under SoCalGas' Gas Cost Incentive Mechanism ("GCIM"), or any successor mechanisms.

**3. Removal of Cost of West Montebello Field from Authorized Margin and Rates**

**4.4 Timing and Amount of Cost of West Montebello Field to be Removed from Current Rates.** The cost of ownership and operation of the West Montebello field is currently reflected in SoCalGas' authorized margin and rates pursuant to the cost of service adopted in D.97-07-054 and the PBR annual rate adjustment mechanism adopted therein. Sixty (60) days after the effective date of this Settlement, SoCalGas' authorized base margin will be reduced by the amount then included in SoCalGas' authorized base margin for the cost of ownership and operation of the West Montebello field. Attached as part of this Settlement is Appendix B, which presents a calculation of the cost of ownership and operation of the West Montebello field in authorized margin. This calculation shall be conclusively presumed to accurately represent this cost and shall not be modified for purposes of this settlement. Appendix B shows a total amount of annual authorized margin for West Montebello of \$14,103,000 in 2001 and of \$14,275,000 in 2002. If sixty (60) days from the effective date of this Settlement is in 2001, SoCalGas' authorized margin and rates on that date shall be reduced by \$14,103,000 on an annual basis, prorated for the portion of 2001 remaining on the sixtieth day. If sixty (60) days from the effective date of this Settlement is in 2002, SoCalGas' authorized margin and rates on that date shall be reduced by \$14,275,000, on an annual basis, prorated for the portion of 2002 remaining on the sixtieth day. This is intended as a permanent removal of the cost of ownership and operation of the West Montebello field from SoCalGas' rates, except to the extent the costs more than sixty (60) days after the effectiveness of this Settlement

affect the net after-tax gain on sale as described above in this Settlement.

**4.5 Relationship to Terms of Settlement in I.99-04-022.** The amounts in the preceding Section 3.1 are not intended to include prospective reduction in SoCalGas' authorized margin related to return of mineral rights to previous owners as required by Ordering Paragraph 5 of D.00-09-034 in I.99-04-022. Compliance with Ordering Paragraph 5 of D.00-09-034 requires reductions in addition to those described in Section 3.1 above. Nothing in this Settlement modifies Ordering Paragraph 5 of D.00-09-034.

**4.6 Allocation of Reduction in Authorized Margin and Rates between Customer Classes.** The reduction in authorized margin and rates shall be allocated between core and noncore customer classes in the same proportions that LRMC "scalar" costs were allocated between core and noncore customer classes by the Commission in SoCalGas' last BCAP decision, D.00-04-060.

#### **4. Additional Provisions**

**4.4 Effective Date.** The terms of this Settlement shall be effective as of the effective date of a Commission decision approving its terms.

**4.5 Duration of the Settlement.** There is no fixed date for the expiration of this Settlement. Rather, it shall apply for the period of time that is required for SoCalGas to withdraw all economically-recoverable gas in

storage at the West Montebello field, and to complete salvage and sale of its remaining property at the field thereafter.

**4.3 Reservations.** This Settlement represents a negotiated compromise among the parties on a number of issues. Consistent with Rule 51.8, Commission adoption of this Settlement does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or any future proceeding. Consistent with Rule 51.9, if not approved by the Commission, the terms of this Settlement shall not be admissible in this or other proceedings unless their admission is agreed to by all Settlement Parties.

**4.4 Integration.** The signatories to this Settlement agree to urge the Commission to adopt the Settlement in its entirety without modification.<sup>13</sup> If the Commission conditions its adoption of the Settlement on any modifications, no signatory to the Settlement shall be bound to accept any such modifications, although such modifications may be made with the consent of all signatories to the Settlement.

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<sup>13</sup> TURN and SCGC represent to the other signatories to this Settlement that they (including the members of SCGC) and Aglet Consumer Alliance have agreed to amend the Post-Interim Settlement in I.99-07-003 so as to conform the Post-Interim Settlement to this Settlement, and to so notify the Commission.

Agreed to by the undersigned parties on the date indicated below. A separate faxed page for each signature is attached.

Dated: November 22, 2000

Southern California Gas Company

By: \_\_\_\_\_  
Glen J. Sullivan  
Attorney

Office of Ratepayer Advocates

By: \_\_\_\_\_  
Name:  
Title:

The Utility Reform Network

By: \_\_\_\_\_  
Name:  
Title:

Southern California Generation Coalition

By: \_\_\_\_\_  
Name:  
Title:

Southern California Edison Company

By: \_\_\_\_\_  
Name:  
Title: